



NEW NORTH RESOURCES LTD.



1998 ANNUAL REPORT

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of New North Resources Ltd. will be held in the Sun Life Plaza Conference Centre, at 210, 140 - 4th Avenue S.W., Calgary, Alberta on Thursday, the 10th day of June, 1999 at 10:00 a.m. (local time).

CONTENTS

Corporate Profile	1
Corporate Highlights	1
Report to the Shareholders	2
Report on Operations	3
Management Report	4
Auditors' Report.....	4
Financial Statements	5 - 6
Notes to Financial Statements	7 - Inside Back Cover
Corporate Information.....	Inside Back Cover

Abbreviations

BBL -	barrels
BOPD -	barrels of oil per day
MCF -	thousand cubic feet
MCF/D -	thousand cubic feet per day
NGL -	natural gas liquids

All sums of money are expressed in Canadian dollars.

CORPORATE PROFILE

New North Resources Ltd. is a Calgary based junior oil and natural gas corporation, engaged in the acquisition, exploration, development and production of medium to light gravity crude oil and natural gas reserves in Alberta.

New North was incorporated pursuant to the Alberta Business Corporations Act on May 9, 1994. The Corporation successfully completed a prospectus offering of shares pursuant to Alberta Securities Commission Policy 4.11 as a Junior Capital Pool company in September of 1994 and commenced trading its common shares on The Alberta Stock Exchange on October 4, 1994. New North closed its major transaction on April 17, 1996 after the shareholders authorized the acquisition by the corporation of certain producing and prospective oil and gas properties located in Alberta. On April 29, 1996, New North commenced trading on The Alberta Stock Exchange as a fully qualified junior oil and gas company.

The Company's primary corporate objective is to achieve growth and enhance shareholder value through timely acquisitions and prudent financial management.

CORPORATE HIGHLIGHTS

Financial (\$)	<u>1998</u>	<u>1997</u>
Gross Production Revenue	\$ 156,263	\$ 204,367
Cash Flow From Operations	67,967	156,150
Per share	0.01	0.03
Net Earnings	6,936	113,042
Per Share	0.00	0.02
Capital Expenditures	135,209	72,722
Bank Debt	135,374	73,440
Shareholders' Equity	448,187	441,251

Operations

Production (Sales)			
Oil and NGL	Total (BBL)	6,000	6,295
	Per Day (BOPD)	16	17
	Average Price (Cdn. \$)	\$ 18.39	\$ 25.80
Natural Gas	Total (MCF)	31,132	32,788
	Per Day (MCF/D)	85	90
	Average Price (Cdn. \$)	\$ 2.17	\$ 2.15

Common Shares

Shares traded	124,000	440,400
Value traded (\$)	11,480	113,940
Share Price (\$)		
High	0.13	0.41
Low	0.05	0.12
Close	0.05	0.12
Number of Shares Outstanding at Year End	4,740,000	4,740,000

REPORT TO THE SHAREHOLDERS

During 1998, the oil and gas industry experienced the negative impact of dramatic declines in crude oil prices due to oversupply and reduced demand, primarily from the Asian market. On an industry-wide scale, exploration and development activity in oil projects in Alberta tailed off sharply during the year, with budgets being re-directed to natural gas plays. Corporate takeovers, both friendly and hostile, made industry headlines for 1998.

Despite significant declines in industry revenues, the management of New North was able to sustain its operations without incurring a loss for the year. Efforts towards reserve replacement were deferred, however, pending improvements in the economic health of an ailing resource industry. With the recent rally in crude oil prices resulting from co-operative control of overproduction, the outlook for the Company for the balance of 1999 is more optimistic.

On July 9, 1998, Michael Smith resigned as Vice President, Exploration of New North and on December 15, 1998, J. Dawn Browne resigned as a director. We express our appreciation and gratitude to both of them for their efforts on behalf of the Company and wish them well. On December 15, 1998, Timothy R. Cumming was appointed to the board of directors and to the audit committee. Mr. Cumming has thirty years of experience in the petroleum and natural gas industry and we welcome him to the board.

As New North continues its commitment to enhance shareholder value, we thank our shareholders for their patience during what has been a difficult year for the entire industry. Also, I would like to thank the directors, officers and management team for their contributions over the last year.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read 'J. Hall', with a large, sweeping initial 'J'.

Thomas J. (Jack) Hall
President and Chairman of the Board

April 29, 1999

REPORT ON OPERATIONS

Swan Hills South

New North owns a 54% working interest in 320 acres in the Swan Hills area of central Alberta where it operates a producing oil well and single well battery at 12-35-65-10 W5M. During 1998, the well produced 7,233 gross barrels of oil (3,906 net), averaging 19.8 barrels per day (10.7 net). Oil production from this property has dropped only slightly from 1997 production of 7,570 gross barrels of oil (4,088 net). Operating net backs averaged \$10.56 per barrel on an average oil price of \$19.97 per barrel (\$16.17 per barrel after royalties).

Sundre

New North owns working interests varying from 6.09% to 16.25% in two sections of land in the Sundre gas pool of southern Alberta. The 2-22 and 14-15-34-5 W5M wells are currently producing gas from the Caroline Basal Mannville MU #3 pool, which gas is processed at the Altana gas plant and contracted to spot gas sales. The wells produced 31,132 mcf of gas (net) and 2,094 barrels of NGL (net) during 1998. Production of natural gas and natural gas liquids for the year decreased just slightly from 1997 totals of 32,788 mcf of gas (net) and 2,182 barrels of NGL (net). Sales of production from the Sundre properties generated revenues net of royalties of \$65,528 in 1998. Production costs totaled \$27,996 resulting in net operating income of \$37,532.

Other Areas

During 1998, New North participated in the drilling of two wells, both during the first quarter of the year. One well was drilled and abandoned by an industry third party on the Company's North Taber property under a farmout arrangement at no cost to New North. The second well, a Glauconite sand test, was drilled by the Company, as operator, on a 50% owned Alberta Crown petroleum and natural gas lease in the Byemoor area of Alberta. The well encountered tight sand and was abandoned.

When industry economics improve, New North intends to continue to negotiate with industry third parties to re-enter an existing wellbore located on its 50% interest in the rights below the base of the Viking zone in one section of land in the Ferrier area of Alberta.

Year 2000 Compliance

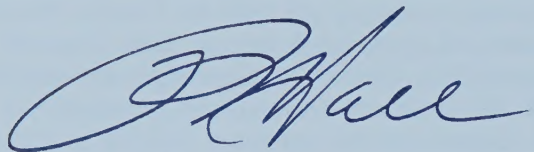
The Year 2000 problem has presented virtually every business with challenges to avoid disruption relating to computer problems arising from the failure to recognize the Year 2000. New North Resources has completed the identification and inventory of all date sensitive computer systems, equipment and operations affected by the Y2K transition. As New North is a small junior company reliant primarily on third party software providers used for the purposes of analyzing business opportunities, maintaining company records and the recording and accounting of financial information including amounts owing to and from the Company, management believes that New North's exposure to significant business loss or disruption due to the Year 2000 problem is mainly limited to the extent that our third party software system providers are diligent in their compliance efforts. All third party suppliers to New North have been contacted and management has received confirmation that all systems are compliant. All non-compliant office equipment and computer hardware and operating systems will be replaced with the most current technology available by no later than the third quarter of 1999. As this equipment is available to New North through its Service Agreement for accounting, administrative, secretarial and other shared office costs for a monthly fee, there are no unusual costs or charges expected by the Company for Year 2000 compliance.

MANAGEMENT REPORT

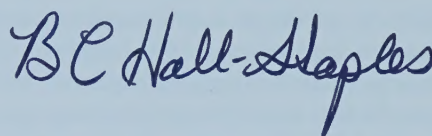
Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

The Company maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.



Thomas J. (Jack) Hall
President and
Chief Executive Officer



Bonnie C. Hall-Staples
Secretary-Treasurer and
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of New North Resources Ltd. as at December 31, 1998 and 1997 and the statements of earnings and retained earnings (deficit) and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in cash flow for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 14, 1999

NEW NORTH RESOURCES LTD.

Balance Sheets

December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Accounts receivable	\$ 27,076	\$ 36,829
Property, plant and equipment:		
Petroleum and natural gas properties	821,582	686,373
Less accumulated depletion and depreciation	(255,018)	(193,987)
	566,564	492,386
	<u>\$ 593,640</u>	<u>\$ 529,215</u>

Liabilities and Shareholders' Equity

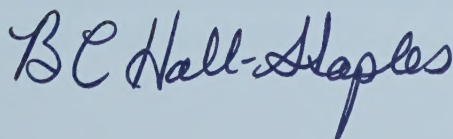
Current liabilities:		
Bank loan (note 2)	\$ 135,374	\$ 73,440
Accounts payable and accrued liabilities	10,079	14,524
	145,453	87,964
Shareholders' equity:		
Common shares (note 3)	348,496	348,496
Retained earnings	99,691	92,755
	448,187	441,251
	<u>\$ 593,640</u>	<u>\$ 529,215</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

NEW NORTH RESOURCES LTD.

Statements of Earnings and Retained Earnings (Deficit)

Years ended December 31, 1998 and 1997

	1998	1997
Revenue:		
Petroleum and natural gas	\$ 178,393	\$ 233,229
Royalties	(49,395)	(55,473)
Alberta Royalty Tax Credit	27,265	26,611
	156,263	204,367
Other income	3,275	24,013
	159,538	228,380
Expenses:		
Operating	51,008	47,611
General and administrative	32,613	17,818
Interest	7,950	6,801
Depletion and depreciation	61,031	43,108
	152,602	115,338
Net earnings	6,936	113,042
Retained earnings (deficit), beginning of year	92,755	(20,287)
Retained earnings, end of year	\$ 99,691	\$ 92,755
Earnings per share	\$ 0.00	\$ 0.02

See accompanying notes to financial statements.

NEW NORTH RESOURCES LTD.

Statements of Changes in Cash Flow

Years ended December 31, 1998 and 1997

	1998	1997
Cash provided by (used in):		
Operations:		
Net earnings	\$ 6,936	\$ 113,042
Items not involving cash:		
Depletion and depreciation	61,031	43,108
Cash flow	67,967	156,150
Change in non-cash working capital	5,308	26,132
	73,275	182,282
Financing:		
Increase (decrease) in bank loan	61,934	(136,560)
Share issue	-	27,000
	61,934	(109,560)
Investments:		
Additions to property, plant and equipment	(135,209)	(72,722)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Cash flow per share	\$ 0.01	\$ 0.03

See accompanying notes to financial statements.

NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1998 and 1997

New North Resources Ltd. (the "Company") was incorporated on May 9, 1994 and commenced operations in September, 1994. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas resources in Alberta.

1. Significant accounting policies:

(a) Joint interest operations:

A significant portion of the Company's petroleum and natural gas acquisition, exploration, development and production activities are conducted with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, plant and production equipment costs and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated by the unit of production method based on estimated gross proven reserves. Natural gas sales and reserves are converted to equivalent units of petroleum using their relative energy content.

Costs of unproved properties are initially excluded from petroleum and natural gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The total capitalized costs, less accumulated depletion and depreciation, future site restoration and deferred income taxes, are limited to an amount equal to the estimated future net revenue from production of proven reserves, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, future site restoration and taxes.

(c) Future site restoration costs:

Estimated future site restoration costs are provided for using the unit-of-production method based on estimated gross proven reserves. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. Actual expenditures incurred are applied against deferred future site restoration costs.

(d) Deferred income taxes:

The Company follows the deferral method of accounting for income taxes.

2. Bank loan:

The Company has a revolving demand credit facility in the amount of \$300,000 with a Canadian chartered bank which bears interest at the bank's prime rate. The facility is guaranteed by a corporation controlled by an officer of the Company. Although the facility is of a demand nature, principal repayments are being made as funds become available.

NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1998 and 1997

3. Share Capital:

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued:

	Number of Shares	Amount
Balance, January 1, 1997	4,470,000	\$ 321,496
Issued for cash on exercise of options	270,000	27,000
Balance, December 31, 1997 and 1998	4,740,000	\$ 348,496

(c) Share options:

The Company has a share option plan for its directors and officers and has granted options to purchase 50,000 common shares at a price of \$0.10 per share until June 17, 1999 and 150,000 common shares at a price of \$0.19 per share until December 16, 2002.

4. Property, plant and equipment:

At December 31, 1998, using year-end prices of \$16.00 per barrel for oil and \$2.50 per mcf for gas, the ceiling test amount was in excess of the capital costs. If commodity prices decline, without compensating changes in other factors, a write-down in the carrying value will be required.

5. Income taxes:

The differences between the expected income tax provision based on the combined federal and provincial statutory income tax rate of approximately 44.6% and the amount actually provided are as follows:

	1998	1997
Expected income taxes	\$ 3,094	\$ 50,417
Non-deductible Crown payments	17,535	19,343
Alberta Royalty Tax Credit	(12,160)	(11,870)
Resource allowance	(9,693)	(19,324)
Benefit on prior years' losses	-	(38,566)
Unrecorded benefit on losses	1,224	-
	\$ -	\$ -

At December 31, 1998, the Company has resource tax pools of \$566,000 and share issue costs of \$19,600 available to apply against future years' taxable income.

6. Fair value of financial assets and liabilities:

The carrying value of the accounts receivable, bank loan and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity or demand nature of the instruments.

7. Related party transactions:

A corporation controlled by an officer of the Company provides all administrative, accounting and secretarial services to the Company. Pursuant to a service agreement entered into in July 1998, the Company has paid a monthly fee of \$2,500 for these services since July, 1998. A corporation controlled by an officer of the Company participates in certain farmout, participation, joint venture and other similar agreements with the Company.

NEW NORTH RESOURCES LTD.

Notes to Financial Statements

Years ended December 31, 1998 and 1997

8. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE INFORMATION

Directors

Thomas J. (Jack) Hall,
Calgary, Alberta

Bonnie C. Hall-Staples,
Calgary, Alberta (1)

Robert S. Clegg,
Calgary, Alberta (1)

Timothy R. Cumming
Calgary, Alberta (1)

(1) Audit Committee

Officers

Thomas J. (Jack) Hall
President

Bonnie C. Hall-Staples
Secretary-Treasurer

Head Office

Suite 1250 Sun Life Plaza III
112 - 4th Avenue S.W.
Calgary, Alberta
T2P 0H3

Telephone: (403) 294-7250

Fax: (403) 294-7272

Auditors

KPMG LLP
Chartered Accountants
1200 Bow Valley Square Two
205 - 5th Avenue S.W.
Calgary, Alberta
T2P 4B9

Registrar and Transfer Agent

Montreal Trust
6th Floor, 530 - 8th Avenue S.W.
Calgary, Alberta
T2P 3S8

Solicitors

Howard, Mackie
1000 Canterra Tower
400 - 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

Banker

Bank of Montreal
350 - 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

Stock Exchange Listings

The Alberta Stock Exchange
Trading Symbol Common Shares: NNT

